Department of Finance

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Canada's Government Provides Broad-based Tax Relief for Individuals, Families and Businesses in 2007–08

Canadian families, students, workers, seniors, and businesses large and small will continue to keep more of their hard-earned money in 2007 and 2008 thanks to substantial new tax reduction measures introduced in 2007 by the Government of Canada. Since coming to office in 2006, the Government has taken action that will by 2012-13, reduce the overall tax burden for Canadians and businesses by about $200 billion, to its lowest level in nearly 50 years.

"Since coming to office, we have reduced taxes in every way we collect revenues," said the Honourable Jim Flaherty, Minister of Finance. "The measures introduced just in the last year show how our Government is putting Canadians first by keeping our promise to reduce taxes. Together, we are building a legacy of tax relief we can all be proud of."

The Economic Statement, introduced on October 30, 2007, reduced taxes for all Canadians by:

- Reducing the goods and services tax (GST) rate to 5 per cent from 6 per cent effective January 1, 2008. Taken together with the initial GST reduction introduced in Budget 2006, total savings from the 2-percentage-point reduction will amount to approximately $12 billion next year for consumers.
- Increasing the amount all Canadians can earn without paying federal income tax to $9,600 in 2007 and 2008, and to $10,100 in 2009.
- Reducing the lowest personal income tax rate to 15 per cent from 15.5 per cent as of January 1, 2007.

Budget 2007 also delivered significant personal tax reductions, including the Working Families Tax Plan, consisting of four components to help families get ahead. They are:

- A new $2,000 child tax credit, which will provide tax relief of up to $300 per child.

- Eliminating the marriage penalty by increasing the spousal and other amounts to provide up to $303 of tax relief for a supporting spouse or single taxpayer who is supporting a child or relative.

- Strengthening the registered education savings plan program by eliminating the annual contribution limit, increasing the lifetime contribution limit to $50,000 from $42,000, and increasing the maximum Canada Education Savings Grant per beneficiary to $500 from $400 to help parents save for their children's education.

- Helping seniors make decisions about their retirement and better manage their money by increasing the age limit from 69 to 71 for the maturation of a registered retirement savings plan.

The Government also introduced the Working Income Tax Benefit in Budget 2007 to improve incentives to work for low-income Canadians and to lower the welfare wall by providing a refundable tax credit worth up to $500 per year for individuals and $1,000 for families. More than 1.2 million low-income Canadians will benefit.

Budget 2007 also enacted the Tax Fairness Plan, which delivers over $1 billion in tax savings for Canadians by increasing the age credit amount by $1,000 to $5,066, and by allowing pension income splitting.

The Government of Canada also introduced corporate tax measures in Budget 2007 and the Economic Statement to help businesses grow and succeed by encouraging investment and job creation, and supporting Canada's manufacturers. These include:

- Reducing the general federal corporate income tax rate to 15 per cent from 22.12 per cent by 2012. This will enable Canadian corporations to have the lowest tax rate on new business investment in the Group of Seven (G7) by 2011 and the lowest statutory tax rate in the G7 by 2012.

- Allowing manufacturing and processing businesses to write off their capital investments in machinery and equipment faster, using a two-year, 50-per-cent straight-line capital cost allowance rate on investments made before 2009.

- Reducing the small business income tax rate from 12 per cent to 11 per cent for 2008, one year earlier than scheduled.

A backgrounder detailing federal tax relief in 2007–08 is attached.

For further information, media may contact:

Chisholm Pothier
Press Secretary
Office of the Minister of Finance
613-996-7861

David Gamble
Media Relations
Department of Finance
613-996-8080

www.fin.gc.ca

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Summary of Federal Tax Relief for 2007 and 2008

	Sales and Excise Tax Measures		
	Measure	**Effective Date**	**Details**
1	Second goods and services tax (GST) rate reduction	January 1, 2008	The 6-per-cent GST rate is being reduced to 5 per cent.
2	48-hour traveller's exemption	March 20, 2007	The traveller's exemption for returning Canadian residents who are out of the country for 48 hours or more has been increased to $400 from $200. This exemption allows returning residents to bring back goods up to a specified dollar limit without having to pay duties or taxes, including customs duty, GST/HST (harmonized sales tax) and certain federal excise taxes.
3	GST-exempt status for services of midwives	December 29, 2006	This measure eliminates the obligation for midwives to add GST to fees for their services.
	Personal Income Tax Measures		
4	Reducing the lowest personal income tax rate	January 1, 2007	The lowest personal rate, which applies on income up to $37,178 in 2007, is being reduced to 15 per cent from 15.5 per cent.
5	Increasing the basic personal amount	January 1, 2007	The basic personal amount is the amount that an individual can earn without paying federal personal income tax. It will be increased to $9,600 for 2007 and 2008, and to $10,100 for 2009.

6	Working Income Tax Benefit (WITB)	January 1, 2007	The WITB will provide up to $500 per year for individuals and $1,000 for families to reward and strengthen incentives to work. More than 1.2 million low-income Canadians will benefit.
7	Registered Disability Savings Plan	January 1, 2008	This measure will provide parents of persons with disabilities with greater peace of mind regarding the financial security of their loved ones when they can no longer care for them.
8	Child tax credit	January 1, 2007	A new $2,000 child tax credit will provide up to $300 of tax relief for each child under 18 years of age. More than 3 million Canadian families will benefit from this measure and more than 90 per cent of those families will receive the maximum relief. Almost 180,000 taxpayers will be removed from the tax rolls.
9	Fairness for single-earner families	January 1, 2007	Increasing the spousal and other amounts to the same level as the basic personal amount will provide up to $303 of tax relief to two-parent families with one parent who earns little or no income. Single parents and individuals caring for a dependant will also benefit.

10	Phased retirement	January 1, 2008	To provide more flexibility to employers to offer phased retirement programs, and to increase the reward to older workers from full-time work, an employee will be allowed to receive pension benefits from a defined benefit registered pension plan and simultaneously accrue further benefits, subject to certain constraints.
11	Helping older Canadians continue working and saving	January 1, 2007	The age limit at which a registered retirement savings plan matures has been increased to 71 from 69.
12	Helping Canadians save for post-secondary education	January 1, 2007	Registered education savings plans have been strengthened through the elimination of the $4,000 limit on annual contributions, as well as an increase in the lifetime contribution limit to $50,000 from $42,000. In addition, the maximum annual Canada Education Savings Grant amount has been increased to $500 from $400.
13	Public transit tax credit	January 1, 2007	Budget 2007 extended eligibility for the public transit tax credit to accommodate weekly passes where an individual purchases at least four consecutive weekly passes. Eligibility was also extended to include certain electronic payment cards.
14	Lifetime capital gains exemption	March 19, 2007	The lifetime capital gains exemption on up to $500,000 of capital gains realized on the disposition of qualified farm and fishing property or qualified small business corporation shares has been increased to $750,000.

15	Meal expenses for truck drivers	Being phased in from March 19, 2007 to January 1, 2011.	The deductible portion of the cost of food and beverages consumed by long-haul truck drivers is being increased to 80 per cent from 50 per cent over a five-year period.
16	Gifts of listed securities to private foundations	March 19, 2007	Elimination of capital gains taxation in respect of gifts of listed securities to private foundations.
17	Elementary and secondary school scholarships	January 1, 2007	Exempt elementary and secondary school scholarships from taxation.
	Business Income Tax Measures		
18	Reducing the general corporate income tax rate	January 1, 2008	This measure will reduce the general corporate income tax rate to 15 per cent from 22.12 per cent (including the elimination of the federal corporate surtax) by 2012. The general corporate income tax rate will be reduced to 19.5 per cent effective January 1, 2008, to 19 per cent effective January 1, 2009, to 18 per cent effective January 1, 2010, to 16.5 per cent effective January 1, 2011, and to 15 per cent effective January 1, 2012.
19	Reducing the small business tax rate	January 1, 2008	This measure reduces the small business tax rate from 12 per cent to 11 per cent, one year earlier than scheduled.
20	Aligning capital cost allowance rates with useful life	March 19, 2007	Capital cost allowance (CCA) is a deduction for tax purposes that recognizes the depreciation of capital property. As part of the Government's ongoing review of CCA rates, Budget 2007 introduced several improvements to the CCA system.

21	Temporary incentive for manufacturing and processing machinery and equipment	March 19, 2007 to December 31, 2008	To help manufacturing and processing businesses make the major investments needed to respond to the stronger Canadian dollar and rising global competition, they are allowed to write off their capital investments in machinery and equipment using a special two-year 50-per-cent straight-line capital cost allowance rate.
22	Mineral exploration tax credit	April 1, 2007	The temporary mineral exploration tax credit for investors in flow-through shares has been extended for an additional year, to March 31, 2008. The one year "look-back" rule will allow funds raised with the benefit of the credit to support exploration spending up until the end of 2009.